

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name		License Number

City of Lincoln Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

City of Lincoln Park, Michigan

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City of Lincoln Park, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Lincoln Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not recorded certain City-owned land in the governmental activities. Accounting principles generally accepted in the United States of America require that the land be capitalized, which would increase the assets and net assets of the governmental activities. The amount by which this departure would affect the assets and net assets of the governmental activities is not reasonably determined.

In our opinion, except for the effects of not recording City-owned land for the governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and City Council
City of Lincoln Park, Michigan

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 19, 2007

City of Lincoln Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Lincoln Park, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please review it conjunction with the City's financial statements.

Reviewing the Annual Report

The annual report covers multiple financial statements. The statement of net assets and the statement of activities supply data about the activities of the City as a whole and provide information regarding the City's finances. For government activities, these statements provide long-term and short-term information about the City's overall status. Financial reporting is similar to that found in the private sector with its basis in full accrual accounting. Fund financial statements show City operations in more detail than government-wide statements, as they provide information about the City's most important funds.

Financial Highlights

Due to this year's operations, the City's net assets are as follows: Net assets of business-type activities were \$26.8 million and net assets of governmental activities were \$42.7 million.

- The current year's expense total was \$29.8 million as compared to the \$26.7 million generated in fees and charges, grants, general revenues, and taxes for governmental programs (before extraordinary items). In the previous year, expenses were \$29.2 million as compared to the \$28.5 million generated in tax and other revenues for governmental programs (before extraordinary items).
- For business-type activities, city revenues were \$10.2 million. Expenses were \$7.6 million.
- The annual cost of all city programs was \$37.4 million. The previous year's cost was \$36.9 million.

The City as a Whole Analysis

Because the statement of net assets and the statement of activities provide facts about the City as a whole, the statements can help determine if the City's financial condition has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private corporations. All current year revenues and expenses are included. It does not matter when cash is paid or received.

These statements give an account of the City's net assets and any changes in those assets. However, to truly judge the condition of the City, some nonfinancial factors, such as diversification of the taxpayer base or the condition of the City's infrastructure, must be considered in addition to the financial information provided in this report.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The statement of net assets and the statement of activities divide the City into two types of activities:

1. Governmental activities: The City's basic services are accounted for in this section, including the police, fire, public works, recreational and cultural departments, community and economic development, and general administration. Property taxes, state revenue sharing, franchise fees, and state and federal grants finance the majority of these activities.
2. Business-type activities: These activities are reported in the fund financial statements and generally report services for which the City charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization, such as water utilities. The City provides water to residents, which the City purchases from the Detroit Water System. The City provides sewage treatment through a county-operated sewage treatment plant.

Detailing the Most Important Funds

The fund financial statements provide detailed information about the most important funds of the City. Certain funds are mandated by state law and by bond agreements. Other funds are established to manage money, meet legal requirements, or for certain taxes or grant funding.

- Government funds: Basic services are reported in government funds. Government fund financial statements detail how money flows into and out of the funds and reports the balances left at year end that are on hand for disbursement. Government funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund accountability focuses on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the next term.

Budgetary comparison statements are included in the basic financial statements for the General Fund and Major Special Revenue Fund (the Community Development Block Grant Fund). These statements and schedules demonstrate compliance within the City adopted and final revised budget.

- Proprietary funds: Proprietary funds are those which the City charges for services it provides, both to city units and outside customers. Proprietary funds are reported in the statement of net assets and the statement of revenues, expenses, and changes in fund net assets. The City's enterprise funds, a component of proprietary funds, are the same as the business-type activities it reports in the government-wide statements, but they give more detailed information such as cash flow.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

City Serving as Trustee

Due to trust arrangements, the City is often accountable for assets that can only be used for trust beneficiaries. All of these trustee proceedings are detailed in separate statements of fiduciary net assets and changes in fiduciary net assets. Because the City cannot use these assets to finance its operations, these activities are not included in other financial statements. However, the City must be certain the assets detailed in these funds are used for their intended purposes.

Notes to Financial Statements

The notes provide additional information that is necessary for a full understanding of the data provided in the accompanying financial statements.

Other Information

In addition to the financial statements and notes, this report contains supplemental information and details of the accompanying financial statements.

Table I - Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 10,043.3	\$ 10,203.6	\$ 3,498.2	\$ 3,138.6	\$ 13,541.5	\$ 13,342.2
Noncurrent assets	42,581.9	44,824.7	36,481.3	35,310.8	79,063.2	80,135.5
Total assets	52,625.2	55,028.3	39,979.5	38,449.4	92,604.7	93,477.7
Liabilities						
Current liabilities	4,967.3	5,500.6	1,849.3	1,813.2	6,816.6	7,313.8
Long-term liabilities	4,954.3	4,069.5	11,325.3	12,423.1	16,279.6	16,492.6
Total liabilities	9,921.6	9,570.1	13,174.6	14,236.3	23,096.2	23,806.4
Net Assets						
Invested in capital assets - Net of related debt	38,646.7	41,855.8	17,936.9	17,357.6	56,583.6	59,213.4
Restricted	2,463.3	2,491.4	6,316.6	4,713.4	8,779.9	7,204.8
Unrestricted	1,593.6	1,111.0	2,551.4	2,142.1	4,145.0	3,253.1
Total net assets	<u>\$ 42,703.6</u>	<u>\$ 45,458.2</u>	<u>\$ 26,804.9</u>	<u>\$ 24,213.1</u>	<u>\$ 69,508.5</u>	<u>\$ 69,671.3</u>

City as a Whole

The City's combined net assets from the previous year were \$69.7 million as compared to \$69.5 million this year. However, net assets and expenses from governmental and business-type activities must be reviewed separately. Table I focuses on the net assets and Table 2 focuses on changes in the net assets of the City's governmental and business-type activities.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The City's net assets for governmental activities were \$42.7 million this year as compared to \$45.5 million last year. Unrestricted net assets were \$1.1 million last year as compared to \$1.6 million this year. Unrestricted net assets are those that can be used to finance everyday operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net assets of the City's business-type activities were \$26.8 million this year as compared to \$24.2 million last year.

City revenues for the current year were \$36.9 million as compared to \$37.8 million in the previous year. The total yearly cost of all programs and services was \$37.4 million as compared to \$36.9 million in the previous year.

Table 2 - Change in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues - Restricted:						
Charges for services	\$ 2,966.8	\$ 3,359.3	\$ 7,944.1	\$ 7,600.2	\$ 10,910.9	\$ 10,959.5
Restricted operating grants	4,293.7	3,575.2	-	-	4,293.7	3,575.2
General revenue:						
Property taxes	13,645.1	14,728.6	1,481.3	1,587.1	15,126.4	16,315.7
Interest and investment income	526.7	498.5	348.0	160.0	874.7	658.5
Other general revenues including transfers	5,255.4	6,319.4	435.1	-	5,690.5	6,319.4
Total revenues	26,687.7	28,481.0	10,208.5	9,347.3	36,896.2	37,828.3
Expenses						
Program expenses:						
General government	3,737.1	2,741.6	-	-	3,737.1	2,741.6
Public safety	14,424.3	14,149.1	-	-	14,424.3	14,149.1
Public works	8,506.4	9,143.6	-	-	8,506.4	9,143.6
Culture and recreation	1,856.5	2,135.5	-	-	1,856.5	2,135.5
Community development	1,225.7	874.9	-	-	1,225.7	874.9
Interest on long-term debt	49.0	22.4	-	-	49.0	22.4
Loss on sale of assets	-	146.6	-	-	-	146.6
Business activities - Water and/or sewer	-	-	7,616.8	7,704.2	7,616.8	7,704.2
Total expenses	29,799.0	29,213.7	7,616.8	7,704.2	37,415.8	36,917.9
Increase (Decrease) in Net Assets	\$ (3,111.3)	\$ (732.7)	\$ 2,591.7	\$ 1,643.1	\$ (519.6)	\$ 910.4

Governmental Activities

This year's governmental activities revenues were \$26.7 million as compared to \$28.5 million last year. The year's governmental activities cost was \$29.8 million as compared to \$29.2 million in the previous year. With the exception of the completion of the Honeywell Energy Efficiency Project, no new debt was added and the City continues to have very few long-term obligations.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

In the past year, the government of the City of Lincoln Park, Michigan has been able to take on few additional projects in economically restrained financial times. Improvements in the service vehicle fleet as well as computer technology were limited to replacement of existing units only and no new debt was issued.

In an effort to bring costs under control, the City entered into an intergovernmental agreement with Allen Park for the provision of animal shelter services, and demolished the old city-owned shelter building, reducing liability and building replacement costs.

Another cost savings measure was taken when the City contracted with Waste Management Services under new rubbish and trash collection services, reducing annual costs by \$105,000.

General insurances were bid and resulted in a reduced expenditure of \$107,000 with improved coverage and clarity.

To improve efficiency and timeliness and to reduce personnel time in corresponding and handling requests for service, a resident service request system enterprise-wide software tool was implemented in early 2007. Over 900 requests were processed by this paperless system.

By reprogramming economic development activities and becoming a "redevelopment ready community" in partnership with the City Economic Development Corporation/Brownfield Authority, one project of \$1 million of taxable value was attracted to the city and, in 2006/2007, approximately \$10 million of new commercial construction was underway, meeting the goal of attracting new commercial services and adding tax base to the City.

Business-type Activities

This year's business-type activities revenues were \$10.2 million as compared to \$9.3 million last year (see Table 2). This year's expenses were \$7.6 million as compared to \$7.7 million in the previous year. These figures are due in part to the following reason:

Currently, the only business activity is the Water and Sewer Fund. This fund is still falling short of expenditures, even after the 14 percent rate increase that has been put into place. An evaluation of this fund will take place and rate adjustments will continue to be made based on the cost of running the system.

General Fund Budgetary Statements

Continual steps must be taken to curb the trend of spending fund balance in the near future. The City is still financially solvent, but the rising cost of employee benefits, including health care and retiree pension plans, is quickly wearing away at the fund.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The intention of city management is to eliminate the use of fund balance in the coming years, and the goal would be to begin to add to those funds within the next few years. Further measures do need to be taken to ensure that the City remains financially solvent.

In developing the budget and annual operations plan, numerous sources are used for the purpose of estimating community need; priorities and estimating revenue capacity have been utilized.

The City approaches the development of the budget by complying with the Uniform and Accounting Budgeting and Accounting Act of the State of Michigan. The budget is based on the same modified accrual method of accounting that is applied in the annual audited financial statements. In accordance with state law, the budget is amended at least once at mid-year and at the conclusion of the fiscal year or as often as experience indicates that material deviations from the adopted plan are occurring. Internally, the director of finance initiates the process and, in concert with the city manager, establishes an annually budget preparation calendar. A series of internal briefings and conferences with key staff administrators are held and then internal input is coordinated with external inputs beginning with an annual strategic organizational planning session of the mayor and City Council in January of each year. These activities result in submission of a recommended budget to the mayor and City Council by April 1 of the calendar year as required by charter.

Amendments to the budget are initiated by administration based upon experience or revised estimates and submitted to the mayor and City Council for adoption. All budgets are approved at the department level and the adopting resolution of the mayor and City Council assigned activity and line item amendatory change authority to the finance director and city manager as assigned.

A significant external input is the economic strategic plan (2006) that provides objectives and priorities for enhancement of the tax base and demographic characteristics such as housing, population, and commercial sales trends. Additionally, a city-wide survey date (2006) was used by city management concerning resident priorities in developing the recommendations for services and the financing of those services.

The master land use plan guides the development and use of properties upon which property tax is based. This plan (2007) was adopted following significant input from the public during three public hearings.

Plant & Moran, PLLC, the City's independent auditing consulting firm, was retained to compile a five-year financial forecast. The five-year financial analysis and projections provide an in-depth estimation of future financial conditions and developed an automated tool to facilitate the analysis of financial operational objective and the projection of fee income, tax income, and the use of fund balance, or reserves.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Estimates for property tax revenue are based on the underlying application of various state laws and the formulation for each is described in this budget. The City has determined that the term revenues include the planned use of or draw down from fund reserves or balances, the funds on hand after the completion of one fiscal year, and unencumbered or designated to capital or contractual obligations.

This budget has been developed using the best available information concerning financial trends and community conditions. Additionally, two public meetings and two mayor and City Council work sessions were held seeking public input prior to budget adoption on June 4, 2007.

City Funds

At year end, the City reported a total governmental fund balance of \$5.5 thousand as compared to \$5.4 thousand in the previous year. Of the other significant funds, the Water and Sewer Fund is the largest. In order for the City to update the rates to meet its inflationary expenditures, rates were raised 14 percent. This will offset a cost of \$498,049. A more aggressive collection of water/sewer funds was also put into place and has reduced delinquencies by 50 percent to date.

Capital Assets

Table 3 - Capital Assets at Year End (Net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ -	\$ -	\$ 16.5	\$ 16.5	\$ 16.5	\$ 16.5
Construction in progress	-	2,474.5	-	-	-	2,474.5
Equipment	4,751.2	1,518.1	1,440.8	1,482.8	6,192.0	3,000.9
Buildings and improvements	1,205.0	1,339.1	290.5	303.8	1,495.5	1,642.9
Infrastructure	34,805.8	37,600.2	28,369.1	28,794.3	63,174.9	66,394.5
Vehicles	1,735.0	1,892.8	-	-	1,735.0	1,892.8
Total	\$ 42,497.0	\$ 44,824.7	\$ 30,116.9	\$ 30,597.4	\$ 72,613.9	\$ 75,422.1

At the close of the year, the City had invested \$72.6 million in capital assets such as land, buildings and improvements, equipment, or infrastructure (see Table 3). A total of \$75.4 million was invested in similar assets last year.

Table 4 - Outstanding Debt at Year End (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the City)	\$ -	\$ -	\$ 12,180.1	\$ 13,239.8	\$ 12,180.1	\$ 13,239.8
Other bonds or outstanding obligations	5,754.2	4,903.9	264.6	300.7	6,018.8	5,204.6
Total	\$ 5,754.2	\$ 4,903.9	\$ 12,444.7	\$ 13,540.5	\$ 18,198.9	\$ 18,444.4

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Debt Management

At the close of the year, the City had \$18.2 million in outstanding bonds and notes as compared to \$18.4 million in the previous year (see Table 4).

Economic Issues/Upcoming Yearly Budgets

City officials considered many issues when establishing the upcoming year's budget, tax rates, and fees. To prepare strategically for future challenges, a five-year financial plan was prepared with the assistance of the independent auditors. This plan forecasts the probable impact of changes to revenue and expenditures based on assumptions derived from demographic and historical financial patterns.

The hard economic times in Michigan continue. High unemployment rates persist, difficult and painful economic developments are covered in newspaper headlines too often, and the state government continues to wrestle with these and other developments. The State's problems become our problems as revenue levels remain stagnant or decline. Expenses continue to grow as important and significant costs such as employee and retiree healthcare costs keep escalating. It appears that municipalities around the state are in actual and persistent danger of becoming financially insolvent. The prospect of emergency receivership is all too real for many municipalities across Michigan, including even the largest city in our state.

Simply stated, municipal government in the state of Michigan is in a state of crisis. Nothing less than a profound change in our state's municipal finance mode will resolve this crisis in the long term. City government is working with other organizations to articulate this basic fact to the leaders at the state level of government in an attempt to accomplish that much-needed reform. We require a complete overhaul of how we finance municipal government in this state in order for the City of Lincoln Park, Michigan and other municipalities to thrive and to continue to offer the services that we offer. These services, such as police and fire protection, road maintenance, parks and recreation services, and garbage pickup, are critical to the daily quality of life in our communities. Municipal government is one of the best investments we can make in Michigan and our economic recovery and it is time that this investment was properly and adequately made.

City government continues to do what can be done to manage these problems given a financial environment that basically requires restructuring in order to continue to exist, let alone thrive. A brief summary of some of these efforts includes the following:

1. Working to find staff efficiencies to keep our level of employees reasonable, efficient, and affordable
2. Seeking cooperation from employees through the collective bargaining process to achieve meaningful and necessary cost reductions in order to maintain the viability of the local government and our ability to provide the local services we all rely on

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

3. Seeking new and improved ways to administer and provide the required pension and healthcare obligations to employees. One example is seeking a shift to the Municipal Employees' Retirement System (MERS) pension system that would generate superior investment returns, reduce administrative costs, and improve the financial health of the city government.

And finally, the city government has been and will continue to be a leader in developing new, innovative, cooperative, and collaborative ways of doing business with neighboring municipal governments. Examples of our commitment and success in this area include:

- Being one of the first municipalities to join the Southeast Michigan Information Alliance, an intergovernmental agreement with several area municipalities, which provides our police department with a state-of-the-art communication and information system at a fraction of the cost of doing so independently
- Being a leader in winning and implementing a Center for Regional Excellence Grant from the State to fund and develop cooperative and collaborative relationships with other municipalities
- Fostering an increased focus on cooperation and collaboration among neighboring communities through our advocacy efforts with organizations such as the Downriver Community Conference and the Michigan Suburbs Alliance
- Being a leader and a force for change as a key member of a group of five communities working on the details of how to consolidate fire department operations in a way that will improve the level of service provided and accomplish meaningful cost reductions for participating communities

The City will also embark in a five-year capital projects plan that will help to improve the aging infrastructure. This will include street improvements, sewer improvements, park updates, and the purchasing/maintenance of equipment that is vital for the City of Lincoln Park, Michigan to continue to provide the highest quality services possible to its residents. The combined use of CDBG and motor vehicle highway revenue is the primary sources of funding for this program.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Contact Information

This report has been created to give our citizens, taxpayers, customers, investors, and creditors a summary of City finances and to show how its revenues are used. If you have any questions regarding this report, or if you need additional financial information, please contact:

Steve M. Duchane, City Manager
Lisa Santos, Director of Finance
1355 Southfield Road
Lincoln Park, Michigan 48146
Phone: 313-386-5440
Fax: 313-386-2205
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lsantos@citylp.com

City of Lincoln Park, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 3,873,100	\$ 972,743	\$ 4,845,843	\$ 901,293
Receivables:				
Taxes - Net of allowance for uncollectible taxes of \$80,000	1,087,849	107,523	1,195,372	-
Customers	-	2,696,159	2,696,159	-
Special assessments	14,082	-	14,082	-
Loans receivable	2,460,680	-	2,460,680	74,934
Accrued interest and other	209,932	1,460	211,392	-
Due from other governmental units	1,892,792	-	1,892,792	-
Internal balances	279,678	(279,678)	-	-
Due from component units	26,091	-	26,091	-
Prepaid expenses	199,116	-	199,116	-
Inventories	84,877	47,792	132,669	-
Restricted assets (Note 9)	-	6,316,593	6,316,593	-
Capital assets - Net (Note 5)	42,496,986	30,116,919	72,613,905	172,070
Total assets	52,625,183	39,979,511	92,604,694	1,148,297
Liabilities				
Accounts payable	954,409	699,395	1,653,804	4,875
Accrued and other liabilities	746,183	30,544	776,727	74,934
Due to primary government	-	-	-	26,091
Deferred revenue (Note 4)	2,466,822	-	2,466,822	-
Noncurrent liabilities (Note 8):				
Due within one year	799,850	1,119,371	1,919,221	60,000
Due in more than one year	4,954,328	11,325,335	16,279,663	-
Total liabilities	9,921,592	13,174,645	23,096,237	165,900
Net Assets				
Invested in capital assets - Net of related debt	38,646,652	17,936,854	56,583,506	172,070
Restricted:				
Streets and highways	2,430,916	-	2,430,916	-
Debt service	32,395	2,231,629	2,264,024	-
Sewer improvements	-	4,084,964	4,084,964	-
Unrestricted	1,593,628	2,551,419	4,145,047	810,327
Total net assets	\$ 42,703,591	\$ 26,804,866	\$ 69,508,457	\$ 982,397

City of Lincoln Park, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,737,043	\$ 598,418	\$ -	\$ -
Public safety	14,424,335	1,534,046	146,667	-
Public works	8,506,410	576,719	2,356,273	470,773
Community and economic development	1,225,659	-	1,320,020	-
Recreation and culture	1,856,520	257,574	-	-
Interest on long-term debt	48,977	-	-	-
Total governmental activities	29,798,944	2,966,757	3,822,960	470,773
Business-type activities - Water and sewer	7,616,807	7,944,067	-	-
Total primary government	<u>\$ 37,415,751</u>	<u>\$ 10,910,824</u>	<u>\$ 3,822,960</u>	<u>\$ 470,773</u>
Component units:				
Downtown Development Authority	\$ 60,934	\$ -	\$ -	\$ -
Economic Development Corporation	247,263	28,052	-	-
Total component units	<u>\$ 308,197</u>	<u>\$ 28,052</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes:				
City operating and rubbish				
Retention basin and Downriver sewer system				
Downtown Development Authority				
Total property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Transfers				
Gain on sale of assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year (as adjusted in Note 1)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,138,625)	\$ -	\$ (3,138,625)	\$ -
(12,743,622)	-	(12,743,622)	-
(5,102,645)	-	(5,102,645)	-
94,361	-	94,361	-
(1,598,946)	-	(1,598,946)	-
(48,977)	-	(48,977)	-
(22,538,454)	-	(22,538,454)	-
-	327,260	327,260	-
(22,538,454)	327,260	(22,211,194)	-
-	-	-	(60,934)
-	-	-	(219,211)
-	-	-	(280,145)
13,645,113	-	13,645,113	-
-	1,481,341	1,481,341	-
-	-	-	371,348
13,645,113	1,481,341	15,126,454	371,348
5,157,493	-	5,157,493	-
526,670	348,023	874,693	44,098
468,387	-	468,387	-
(435,102)	435,102	-	-
64,641	-	64,641	-
19,427,202	2,264,466	21,691,668	415,446
(3,111,252)	2,591,726	(519,526)	135,301
45,814,843	24,213,140	70,027,983	847,096
\$ 42,703,591	\$ 26,804,866	\$ 69,508,457	\$ 982,397

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2007

	Major Funds			
	General	Community Development Block Grant	Nonmajor Funds	Total Governmental Funds
	Fund	Fund		
Assets				
Cash and investments (Note 3)	\$ 782,043	\$ 436,280	\$ 2,590,110	\$ 3,808,433
Receivables:				
Taxes	843,971	-	170,171	1,014,142
Special assessments	-	-	14,082	14,082
Loans receivable	-	2,460,680	-	2,460,680
Other	207,665	-	2,267	209,932
Due from other governmental units	1,429,630	76,605	386,557	1,892,792
Due from other funds (Note 6)	701,884	-	321,289	1,023,173
Due from component units	26,091	-	-	26,091
Prepaid expenses	199,116	-	-	199,116
Inventories	84,877	-	-	84,877
Total assets	<u>\$ 4,275,277</u>	<u>\$ 2,973,565</u>	<u>\$ 3,484,476</u>	<u>\$ 10,733,318</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 410,776	\$ 3,028	\$ 320,414	\$ 734,218
Accrued and other liabilities	674,016	538	19,088	693,642
Due to other funds (Note 6)	483,221	505,188	290,331	1,278,740
Deferred revenue (Note 4)	2,011	2,464,811	14,082	2,480,904
Total liabilities	1,570,024	2,973,565	643,915	5,187,504
Fund Balances				
Reserved for inventories	84,877	-	-	84,877
Reserved for forfeiture activity	414,533	-	-	414,533
Unreserved - Reported in:				
General Fund	2,205,843	-	-	2,205,843
Special Revenue Funds	-	-	2,733,705	2,733,705
Debt Service Funds	-	-	32,395	32,395
Capital Projects Fund	-	-	74,461	74,461
Total fund balances	2,705,253	-	2,840,561	5,545,814
Total liabilities and fund balances	<u>\$ 4,275,277</u>	<u>\$ 2,973,565</u>	<u>\$ 3,484,476</u>	<u>\$ 10,733,318</u>

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007

Fund Balance - Total Governmental Funds	\$ 5,545,814
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	40,632,542
Special assessment and grant receivables are expected to be collected over several years and are not available to pay for current year expenditures	14,082
Personal property receivables are expected to be collected over several years and are not available to pay for current year expenditures	73,707
Accrued interest payable is recorded as a liability in governmental activities	(47,617)
Compensated absences are included as a liability in governmental activities	(1,863,844)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds	(3,576,165)
Internal Service Funds are included as a part of governmental activities	<u>1,925,072</u>

Net Assets - Governmental Activities	<u>\$ 42,703,591</u>
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City of Lincoln Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Funds			
		Community Development		Total
	General Fund	Block Grant Fund	Nonmajor Funds	Governmental Funds
Revenue				
Property taxes	\$ 11,848,443	\$ -	\$ 1,891,882	\$ 13,740,325
Federal sources	-	1,315,917	-	1,315,917
State sources	5,336,197	-	2,354,283	7,690,480
Licenses and permits	1,367,331	-	77,156	1,444,487
Fines and forfeitures	1,535,064	-	-	1,535,064
Interest and rentals	398,494	-	129,446	527,940
Other	797,342	4,103	23,208	824,653
Total revenue	21,282,871	1,320,020	4,475,975	27,078,866
Expenditures				
Current:				
General government	4,293,193	-	-	4,293,193
Public safety	14,151,230	-	-	14,151,230
Public works	952,018	-	4,036,330	4,988,348
Community development	53,439	1,320,020	-	1,373,459
Recreation and culture	1,736,412	-	-	1,736,412
Capital outlay	1,105,476	-	-	1,105,476
Total expenditures	22,291,768	1,320,020	4,036,330	27,648,118
Excess of Revenues Over (Under)				
Expenditures	(1,008,897)	-	439,645	(569,252)
Other Financing Sources (Uses)				
Proceeds from long-term debt	1,105,476	-	-	1,105,476
Transfers in	-	-	475,186	475,186
Transfers out	(6,993)	-	(903,295)	(910,288)
Total other financing sources (uses)	1,098,483	-	(428,109)	670,374
Net Change in Fund Balance	89,586	-	11,536	101,122
Fund Balances - Beginning of year (as adjusted in Note 1)	2,615,667	-	2,829,025	5,444,692
Fund Balances - End of year	<u>\$ 2,705,253</u>	<u>\$ -</u>	<u>\$ 2,840,561</u>	<u>\$ 5,545,814</u>

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 101,122
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,823,174
Capital assets used in governmental activities are not considered financial resources; as such, depreciation recorded on those assets is not considered an activity of the funds	(4,017,024)
Delinquent personal property tax revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end	(95,212)
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	83,835
Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred	(32,387)
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(8,892)
Long-term debt proceeds are not recorded as financing sources on the statement of activities	(1,105,476)
Internal Service Funds are also included as governmental activities on the statement of activities	<u>139,608</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (3,111,252)</u></u>
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City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Major Fund	Nonmajor Fund		Governmental Activities
	Water and Sewer Fund	Development Fund	Enterprise Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 887,019	\$ 85,724	\$ 972,743	\$ 64,667
Receivables:				
Taxes	107,523	-	107,523	-
Customers	2,696,159	-	2,696,159	-
Other	1,460	-	1,460	-
Due from other funds	18,256	-	18,256	535,788
Inventories	47,792	-	47,792	-
Restricted assets - Current portion (Note 9)	1,091,248	-	1,091,248	-
Total current assets	4,849,457	85,724	4,935,181	600,455
Long-term assets:				
Restricted assets - Long-term portion (Note 9)	5,225,345	-	5,225,345	-
Capital assets (Note 5)	30,116,919	-	30,116,919	1,864,444
Total assets	40,191,721	85,724	40,277,445	2,464,899
Liabilities				
Current liabilities:				
Accounts payable	699,395	-	699,395	220,191
Accrued and other liabilities	30,544	-	30,544	4,924
Due to other funds (Note 6)	297,934	-	297,934	543
Current liabilities payable (Note 8)	28,123	-	28,123	165,614
Current liabilities payable from restricted assets (Note 8)	1,091,248	-	1,091,248	-
Total current liabilities	2,147,244	-	2,147,244	391,272
Long-term debt - Net of current portion (Note 8)	11,325,335	-	11,325,335	148,555
Total liabilities	13,472,579	-	13,472,579	539,827
Net Assets				
Invested in capital assets - Net of related debt	17,936,854	-	17,936,854	1,550,275
Restricted (Note 9)	6,316,593	-	6,316,593	-
Unrestricted and undesignated	2,465,695	85,724	2,551,419	374,797
Total net assets	<u>\$ 26,719,142</u>	<u>\$ 85,724</u>	<u>\$ 26,804,866</u>	<u>\$ 1,925,072</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2007

	Major Fund	Nonmajor Fund		Governmental Activities
	Water and Sewer Fund	Development Fund	Enterprise Total	Internal Service Funds
Operating Revenue				
Sale of water	\$ 2,528,849	\$ -	\$ 2,528,849	\$ -
Sewage disposal charges	4,093,388	-	4,093,388	-
Charges for services	-	-	-	1,382,431
System maintenance charge	974,815	-	-	-
Other	347,015	-	347,015	-
Total operating revenue	7,944,067	-	7,944,067	1,382,431
Operating Expenses				
Cost of water	1,543,283	-	1,543,283	-
Cost of sewage disposal	1,966,570	-	1,966,570	-
Operation and maintenance	472,919	-	472,919	446,351
General and administrative	1,528,886	-	1,528,886	378,522
Depreciation	982,651	-	982,651	402,850
Other	650,882	-	650,882	-
Total operating expenses	7,145,191	-	7,145,191	1,227,723
Operating Income	798,876	-	798,876	154,708
Nonoperating Revenue (Expense)				
Property taxes	1,481,341	-	1,481,341	-
Investment income	344,321	3,702	348,023	1,490
Interest expense	(471,616)	-	(471,616)	(16,590)
Total nonoperating revenue (expense)	1,354,046	3,702	1,357,748	(15,100)
Income - Before contributions	2,152,922	3,702	2,156,624	139,608
Transfers from Other Funds	435,102	-	435,102	-
Change in Net Assets	2,588,024	3,702	2,591,726	139,608
Net Assets - Beginning of year	24,131,118	82,022	24,213,140	1,785,464
Net Assets - End of year	<u>\$ 26,719,142</u>	<u>\$ 85,724</u>	<u>\$ 26,804,866</u>	<u>\$ 1,925,072</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Major Fund	Nonmajor Fund	Enterprise	Governmental Activities
	Water and Sewer Fund	Development Fund	Total	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 7,597,022	\$ -	\$ 7,597,022	\$ 1,382,431
Payment to suppliers	(4,600,166)	-	(4,600,166)	(307,048)
Payments to employees for wages and benefits	(1,565,293)	-	(1,565,293)	(380,115)
Other payments	160,952	-	160,952	(9,285)
Net cash provided by operating activities	1,592,515	-	1,592,515	685,983
Cash Flows from Capital and Related Financing Activities				
Collection of property taxes	1,481,341	-	1,481,341	-
Payment to County Debt Service Fund	(651,658)	-	(651,658)	-
Payments to other funds	-	-	-	1,513
Purchase of capital assets	(502,193)	-	(502,193)	(268,957)
Principal paid on debt	(544,734)	-	(544,734)	(180,282)
Interest paid on debt	(226,709)	-	(226,709)	(16,590)
Transfers from other funds	435,102	-	435,102	-
Net cash used in capital and related financing activities	(8,851)	-	(8,851)	(464,316)
Cash Flows from Non-capital Financing Activities - Payments to other funds	-	-	-	(357,583)
Cash Flows from Investing Activities - Interest received on investments	278,856	3,702	282,558	1,490
Net Increase (Decrease) in Cash and Cash Equivalents	1,862,520	3,702	1,866,222	(134,426)
Cash and Cash Equivalents - July 1, 2006	2,769,446	82,022	2,851,468	199,093
Cash and Cash Equivalents - June 30, 2007	<u>\$ 4,631,966</u>	<u>\$ 85,724</u>	<u>\$ 4,717,690</u>	<u>\$ 64,667</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 887,019	\$ 85,724	\$ 972,743	\$ 64,667
Restricted assets (Note 9)	3,744,947	-	3,744,947	-
Total	<u>\$ 4,631,966</u>	<u>\$ 85,724</u>	<u>\$ 4,717,690</u>	<u>\$ 64,667</u>
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income	\$ 798,876	\$ -	\$ 798,876	\$ 154,708
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	982,651	-	982,651	402,850
Changes in assets and liabilities:				
Accounts receivable	214,452	-	214,452	-
Due (to) from other funds	168,976	-	168,976	(9,285)
Accounts payable	(537,033)	-	(537,033)	139,303
Compensated absences	(36,075)	-	(36,075)	-
Accrued and other liabilities	668	-	668	(1,593)
Net cash provided by operating activities	<u>\$ 1,592,515</u>	<u>\$ -</u>	<u>\$ 1,592,515</u>	<u>\$ 685,983</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2007

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, the following activities occurred with the assets held at Wayne County on behalf of the City that were not reflected in the statement of cash flows:

Assets on Hand - July 1, 2006		\$ 2,052,933
Interest earned on investment	\$ 65,465	
Judgment levy	651,622	
Increase in working capital as a result of billings to the City	561,497	
Principal paid	(544,734)	
Interest paid	<u>(215,137)</u>	
Assets on Hand - June 30, 2007		<u>\$ 2,571,646</u>

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefits Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 3,888,590	\$ 180,939
Investments at fair value:		
Common stock	27,231,379	-
U.S. government securities	6,959,807	-
U.S. government agencies	2,660,432	-
Corporate bonds	2,781,489	-
Mutual funds	6,023,733	-
Accrued interest	202,271	-
Total assets	49,747,701	<u><u>\$ 180,939</u></u>
Liabilities		
Accounts payable	613,893	\$ -
Accrued and other liabilities	18,000	180,939
Total liabilities	<u><u>631,893</u></u>	<u><u>\$ 180,939</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 49,115,808</u></u>	

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefits Trust Funds
Additions	
Contributions:	
Employer	\$ 3,419,671
Plan members	651,821
	<hr/>
Total contributions	4,071,492
Investment earnings:	
Net increase in fair value of investments	5,526,723
Interest and dividends	1,432,703
Less investment expenses	(321,766)
	<hr/>
Net investment earnings	6,637,660
	<hr/>
Total additions	10,709,152
Deductions	
Benefit payments	8,966,402
Refunds of contributions	695,295
Administrative expenses	134,672
	<hr/>
Total deductions	9,796,369
	<hr/>
Increase in Plan Net Assets	912,783
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	48,203,025
	<hr/>
End of year	<u><u>\$ 49,115,808</u></u>

City of Lincoln Park, Michigan

Component Units Statement of Net Assets June 30, 2007

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and cash equivalents	\$ 706,761	\$ 194,532	\$ 901,293
Loans receivable	-	74,934	74,934
Land (Note 5)	172,070	-	172,070
Total assets	878,831	269,466	1,148,297
Liabilities			
Accounts payable	1,990	2,885	4,875
Deferred revenue	-	74,934	74,934
Due to primary government	15,026	11,065	26,091
Due to component unit	-	-	-
Noncurrent liabilities - Due within one year (Note 8)	60,000	-	60,000
Total liabilities	77,016	88,884	165,900
Net Assets			
Invested in capital assets	172,070	-	172,070
Unrestricted	629,745	180,582	810,327
Total net assets	<u>\$ 801,815</u>	<u>\$ 180,582</u>	<u>\$ 982,397</u>

City of Lincoln Park, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Governmental activities:			
Downtown Development Authority	\$ 60,934	\$ -	\$ -
Economic Development Corporation	<u>247,263</u>	<u>28,052</u>	<u>-</u>
Total governmental activities	<u>\$ 308,197</u>	<u>\$ 28,052</u>	<u>\$ -</u>

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (60,934)	\$ -	\$ (60,934)
-	(219,211)	(219,211)
(60,934)	(219,211)	(280,145)
371,348	-	371,348
22,128	21,970	44,098
393,476	21,970	415,446
332,542	(197,241)	135,301
469,273	377,823	847,096
\$ 801,815	\$ 180,582	\$ 982,397

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Lincoln Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lincoln Park, Michigan:

Reporting Entity

The City of Lincoln Park, Michigan is governed by an elected six-member council and the mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Units

- a. The Building Authority is a City-created and City-directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.
- b. The City of Lincoln Park Police and Fire Retirement System and Municipal Employees' Retirement System have also been blended into the City's financial statements. Both systems are governed by five-member pension boards. The mayor and one City Council member sit on each board. Two members of the board are elected by the participants. In addition, the City Council appoints one City resident to each board. The systems are reported as if they were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems.

Discretely Presented Component Units

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of eight individuals, is appointed by the mayor. The appointment is subject to approval by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

- b. The Economic Development Corporation (EDC) is reported in a separate column to emphasize that it is legally separate from the City. EDC was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. EDC's governing body, which consists of nine individuals, is selected by the City Council and mayor.

The component units above do not issue separate financial statements.

The City has excluded the Lincoln Park Housing Commission from this report because the City is not able to impose its will on the Lincoln Park Housing Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds, fiduciary funds, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following two major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for the resources of federal grant revenues, which are restricted for use in assisting the City with community development.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major enterprise fund:

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for vehicle and equipment purchases, as well as technology purchases.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Police and Fire Retirement System, the Municipal Employees' Retirement System, and the Retirees' Health Benefit Fund, which accumulate resources for pension and postretirement health benefit payments to qualified police and fire and municipal employees.

Agency Funds - The Agency Funds are used to account for assets held by the City in a trustee capacity for other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has not elected to apply private sector standards issued after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown as net of allowance for uncollectible amounts.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1. The taxes are due on February 28 before they are added to the county tax rolls. Taxpayers not paying one-third of the tax by August 20, one-third by October 15, and the balance by February 28 are subject to penalties. Property tax receivables are shown net of allowance for uncollectible amounts.

The 2006 taxable valuation of the City totaled \$746 million, on which ad valorem taxes levied consisted of 15.5567 mills for the City's operating purposes, 2.3332 mills for refuse, 1.0285 mills for Ecorse Creek debt, and 1.0490 mills for Downriver Sewage Disposal System debt. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Funds financial statements as taxes receivable - current or as tax revenue.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. The General Fund fund balance has been reserved in an amount equal to the cost of the inventory. The inventory includes gasoline and supplies for machinery and equipment.

Restricted Assets - The restricted assets in the Water and Sewer Fund consist of cash and cash equivalents restricted to provide for the replacement of water and sewer assets. Also, monies received from a tax levy are restricted for the payment of outstanding Water and Sewer Fund debt. In addition, restricted assets result from the establishment of debt reserves related to county sewage disposal system bonds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City using different individual costs and estimated useful lives, depending on the different asset uses and classifications. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has not capitalized any City-owned land.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Water and sewer distribution systems	20-75 years
Buildings and building improvements	10-45 years
Vehicles	5-20 years
Machinery and equipment	10-45 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statements of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets - Net assets in the General Fund and the governmental activities have been restated to reflect revenue recognition for drug forfeiture receipts which were previously reported as deferred revenue. As a result, net assets of the General Fund and governmental net assets as of July 1, 2006 increased by \$356,654.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law.

The budget process begins with goals and objectives meetings in April with the City Council and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and the City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each April, department heads receive workpapers to prepare their individual line item budgets. Upon completion, the departmental budgets are returned to the controller in May. The finance director then analyzes these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

A proposed, balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in May, provide all interested citizens an open forum where they can be heard. Upon review and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget is scheduled for adoption at the first regular City Council meeting in June. The operating millage rate is established as part of the budget adoption resolution at that meeting.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Capital outlay financed with debt is budgeted net of the related debt proceeds.

The budget comparison for the General Fund and Major Special Revenue Fund, as adopted by the City Council, is included as required supplemental information. Budget comparisons for other Special Revenue Funds (except for the Compensated Absences Fund, which was not budgeted) are available at City Hall.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the General Fund incurred expenditures in excess of budget for the following:

	Budget	Actual	Unfavorable Variance
General Fund expenditures:			
General government	\$ 1,476,382	\$ 1,740,382	\$ (264,000)
Parks	338,820	472,584	(133,764)
Total	<u>\$ 1,815,202</u>	<u>\$ 2,212,966</u>	<u>\$ (397,764)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Funds and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965 and Public Act 149 of 1999, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council, in accordance with Public Act 196 of 1997, has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$8,771,303 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority and the Economic Development Corporation had \$494,476 and \$85,588, respectively, of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. Treasury securities	\$ 6,959,807	3.00 years
U.S. agency securities	2,660,432	4.01 years
Corporate bonds	2,781,489	4.10 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Rating	Fair Value	Rating Organization
AAA	\$ 995,570	S&P
AA	113,608	S&P
AA-	404,185	S&P
A+	533,722	S&P
A	229,969	S&P
A-	208,890	S&P
BBB+	181,019	S&P
BBB	150,714	S&P
BBB-	80,200	S&P
Not Rated	20,334,555	N/A

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. In addition, the City has made loan to homeowners and assessed liens for rehabilitation projects paid for with grant funds. Program income is recognized as the monies are received from HUD and loaned out again. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 14,082	\$ -
Grant and program income payments received prior to meeting all eligibility requirements	-	2,011
Rehabilitation liens and loans	-	2,464,811
Total	<u>\$ 14,082</u>	<u>\$ 2,466,822</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated - Construction in progress	\$ 2,474,524	\$ -	\$ 2,474,524	\$ -
Capital assets being depreciated:				
Roads and sidewalks	95,422,898	684,363	-	96,107,261
Buildings and improvements	6,080,293	-	-	6,080,293
Equipment	5,133,177	3,613,335	-	8,746,512
Subtotal	106,636,368	4,297,698	-	110,934,066
Accumulated depreciation:				
Roads and sidewalks	57,822,655	3,478,845	-	61,301,500
Buildings and improvements	4,741,162	134,118	-	4,875,280
Equipment	3,720,683	404,061	-	4,124,744
Subtotal	66,284,500	4,017,024	-	70,301,524
Net capital assets being depreciated	40,351,868	280,674	-	40,632,542
Net other governmental capital assets	\$ 42,826,392	\$ 280,674	\$ 2,474,524	\$ 40,632,542

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Internal Service Funds Assets				
Capital assets being depreciated:				
Vehicles	\$ 2,119,552	\$ 229,138	\$ -	2,348,690
Machinery and equipment	118,290	39,819	-	158,109
Subtotal	2,237,842	268,957	-	2,506,799
Accumulated depreciation:				
Vehicles	226,729	386,930	-	613,659
Machinery and equipment	12,776	15,920	-	28,696
Subtotal	239,505	402,850	-	642,355
Net Internal Service Funds capital assets	<u>\$ 1,998,337</u>	<u>\$ (133,893)</u>	<u>\$ -</u>	<u>\$ 1,864,444</u>
Governmental capital assets not being depreciated	\$ 2,474,524	\$ -	\$ 2,474,524	\$ -
Net governmental capital assets being depreciated	<u>42,350,205</u>	<u>146,781</u>	<u>-</u>	<u>42,496,986</u>
Net governmental activity capital assets	<u>\$ 44,824,729</u>	<u>\$ 146,781</u>	<u>\$ 2,474,524</u>	<u>\$ 42,496,986</u>
Business-type Activities				
Capital assets not being depreciated - Land	\$ 16,540	\$ -	\$ -	\$ 16,540
Capital assets being depreciated:				
Water and sewer distribution systems	42,529,810	487,691	-	43,017,501
Buildings and building improvements	1,683,467	-	-	1,683,467
Machinery and equipment	2,528,448	14,502	-	2,542,950
Subtotal	46,741,725	502,193	-	47,243,918
Accumulated depreciation:				
Water and sewer distribution systems	13,735,599	912,811	-	14,648,410
Buildings and building improvements	1,379,686	13,267	-	1,392,953
Machinery and equipment	1,045,603	56,573	-	1,102,176
Subtotal	16,160,888	982,651	-	17,143,539
Net capital assets being depreciated	<u>30,580,837</u>	<u>(480,458)</u>	<u>-</u>	<u>30,100,379</u>
Net capital assets	<u>\$ 30,597,377</u>	<u>\$ (480,458)</u>	<u>\$ -</u>	<u>\$ 30,116,919</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	\$ 277,661
Public safety	64,381
Public works	3,520,489
Recreation and culture	154,493
Internal Service Funds	<u>402,850</u>
Total governmental activities	<u>\$ 4,419,874</u>
Business-type activities - Water and sewer	<u>\$ 982,651</u>

Component Units - Capital assets of the component units consist of a parcel of land purchased by the Downtown Development Authority in 2005 for \$172,070.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Community Development Block Grant Fund	\$ 417,843
	Water and Sewer Fund	128,056
	Nonmajor governmental funds	155,442
	Internal Service Funds	<u>543</u>
	Total General Fund	701,884
Nonmajor governmental funds	General Fund	239,447
	Community Development Block Grant Fund	67,397
	Water and Sewer Fund	<u>14,445</u>
	Total nonmajor governmental funds	321,289
Water and Sewer Fund	Community Development Block Grant Fund	18,256
Internal Service Funds	General Fund	243,774
	Community Development Block Grant Fund	1,692
	Nonmajor governmental funds	134,889
	Water and Sewer Fund	<u>155,433</u>
	Total Internal Service Funds	<u>535,788</u>
	Total	<u>\$ 1,577,217</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers include the transfer of \$468,193 of Act 51 funding from the Major Streets Fund to the Local Streets Fund. Additionally, the General Fund transferred \$6,993 to the Sanitation Fund in order to eliminate a fund deficit. Interfund transfers also include the transfer of \$435,102 from the Water Bond Debt Service Fund to the Water and Sewer Fund. This amount has been restricted for capital improvements.

Note 7 - Leases

Capital Leases - The City has entered into lease agreements as lessee for financing the purchase of heating and air conditioning units and various other City renovations. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of the future minimum lease payments as of the inception date (see Note 8). Construction of the assets under capital lease were completed during fiscal year 2007 and totaled \$3,580,000. Accumulated depreciation as of June 30, 2007 on the leased assets is \$238,667. The future minimum lease obligations for the years ending June 30, 2008 through June 30, 2022 and the net present value are as follows:

Years Ending June 30	Amount
2008	\$ 329,053
2009	329,053
2010	329,053
2011	329,053
2012	329,053
2013-2022	<u>3,208,267</u>
Total minimum payments	4,853,532
Less amount representing interest	<u>(1,317,372)</u>
Present value at June 30, 2007	<u>\$ 3,536,165</u>

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Capital lease obligations for the Honeywell agreement are recorded as amounts spent as long-term debt (see Note 7). County contractual agreements and installment purchase agreements are also general obligations of the City.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Other governmental obligations:							
Capital lease - Honeywell agreement:							
Amount of issue - \$3,580,000							
Maturing though 2022	4.00%	\$179,768	\$ 2,474,524	\$ 1,105,476	\$ (43,835)	3,536,165	\$ 179,768
Employee compensated absences		\$301,595	1,854,952	8,892	-	1,863,844	414,468
Lawsuit settlement			80,000	-	(40,000)	40,000	40,000
Total other governmental obligations			4,409,476	1,114,368	(83,835)	5,440,009	634,236
Internal Service Fund - Installment purchase obligations:							
Amount of issue - \$1,889,373	4.00%-	\$1,687-					
Maturing through various dates	7.58%	\$48,038	494,451	-	(180,282)	314,169	165,614
Total governmental activities			\$ 4,903,927	\$ 1,114,368	\$ (264,117)	\$ 5,754,178	\$ 799,850
Business-type Activities							
General obligation bonds:							
Ecorse Creek Pollution Bond - Phase III:							
Amount of issue - \$10,250,000							
Maturing through 2012	5.00%	\$750,000	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000	\$ -
Ecorse Creek #1 Phase III:							
Amount of issue - \$8,295,000	5.30%-	\$505,000-					
Maturing through 2010	6.0%	\$750,000	3,235,000	-	(515,000)	2,720,000	505,000
Downriver Sewage Disposal Bonds:							
Amount of issue - \$12,344,844	2.00%-	\$65-					
Maturing through various dates	2.50%	\$515,000	8,504,799	-	(544,734)	7,960,065	586,248
Total general obligation bonds			13,239,799	-	(1,059,734)	12,180,065	1,091,248
Other long-term obligations:							
Basement flooding lawsuit settlement			150,000	-	-	150,000	-
Employee compensated absences			150,716	-	(36,075)	114,641	28,123
Total other long-term obligations			300,716	-	(36,075)	264,641	28,123
Total business-type activities			\$ 13,540,515	\$ -	\$ (1,095,809)	\$ 12,444,706	\$ 1,119,371
Component Units - Other long-term obligations -							
Lawsuit settlement			\$ 120,000	\$ -	\$ (60,000)	\$ 60,000	\$ 60,000

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above debt obligations are as follows (excludes compensated absence and basement flooding liabilities):

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 385,382	\$ 161,737	\$ 547,119	\$ 1,091,248	\$ 423,201	\$ 1,514,449	\$ 60,000	\$ -	\$ 60,000
2009	335,622	148,254	483,876	1,350,181	370,766	1,720,947	-	-	-
2010	194,663	134,390	329,053	1,356,382	310,502	1,666,884	-	-	-
2011	202,567	126,486	329,053	1,358,478	250,429	1,608,907	-	-	-
2012	210,792	118,261	329,053	1,399,922	193,196	1,593,118	-	-	-
2013-2017	1,189,512	455,755	1,645,267	4,055,231	437,397	4,492,628	-	-	-
2018-2022	1,371,796	191,208	1,563,004	1,437,521	63,303	1,500,824	-	-	-
2023-2027	-	-	-	131,102	4,981	136,083	-	-	-
Total	<u>\$ 3,890,334</u>	<u>\$ 1,336,091</u>	<u>\$ 5,226,425</u>	<u>\$ 12,180,065</u>	<u>\$ 2,053,775</u>	<u>\$ 14,233,840</u>	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>

Note 9 - Restricted Assets

The restricted assets in the business-type activities consist of cash and cash equivalents restricted to provide for the replacement of Enterprise Fund assets. Also, monies received from a tax levy are restricted for the payment of outstanding Enterprise Fund debt. In addition, restricted assets result from the establishment of debt and operating reserves related to county sewage disposal system bonds. The restricted assets at June 30, 2007 consist of the following:

Cash and cash equivalents:

Ecorse Creek replacement reserve	\$ 1,000,000
Enterprise Fund debt service	556,654
Water and sewer capital improvement	1,539,896
Engineering and sewer improvement reserve	<u>648,397</u>
Total cash and cash equivalents	3,744,947

Wayne County sewage disposal system:

Assets held at Wayne County for future debt payments	1,674,975
Assets held at Wayne County for sewer operations	<u>896,671</u>
Total restricted assets	<u>\$ 6,316,593</u>

Current liabilities to be paid from restricted assets of \$1,091,248 at June 30, 2007 consist of the current portion of the Ecorse Creek pollution bonds and the Downriver Sewage Disposal System (Series A&B and State Revolving Fund) bonds, which are to be paid from debt levy revenue.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Descriptions - The Police and Fire Retirement System and the Municipal Employees' Retirement System are single-employer defined benefit pension plans administered by the City of Lincoln Park, Michigan. These plans cover all full-time police and fire employees and general employees of the City hired before December 1, 2004. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of the following:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	145	155
Current employees:		
Fully vested	38	39
Nonvested	45	29
Total current employees	83	68

The plans do not issue a separate financial report.

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the systems for these employees was established by City ordinance and negotiation with the police, fire, and general employees' competitive bargaining units and requires a contribution from the employees of 8.18 percent of qualifying wages for police and fire employees and 8.41 percent of qualifying wages for general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plans are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2007, the City's annual pension cost was as follows:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Annual pension cost	\$ 1,818,550	\$ 1,485,913
Actual and required contribution	1,818,550	1,485,913

The annual required contributions were determined as part of an experience study conducted during the year ended June 30, 2006, using the entry age cost method for both the Police and Fire Retirement System and the Municipal Employees' Retirement System. Significant actuarial assumptions for both systems include: (i) an 8 percent to 8.25 percent investment rate of return and (ii) projected salary increases of 4.0 percent to 7.8 percent per year. Both plans assume that benefits will not increase after retirement, with the following exceptions: fire members retiring after January 1, 1996, police members retiring after September 6, 1996, and general municipal members retiring after August 1, 1996. These employees will receive an increase of \$300 in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 30 years. The unfunded actuarial liability for those individuals who retired under the early retirement window is being amortized on a closed basis over a 20-year amortization period.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Reserves - As of June 30, 2007, the plans' legally required reserves have been fully funded as follows:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Reserve for employees' contribution	\$ 4,650,069	\$ 4,864,418
Reserve for retired benefit payments	26,010,080	12,184,769

Financial Statement Information - As of June 30, 2007, the statement of net assets for the pension plans is as follows:

	Pension and Other Employee Benefits Trust Funds			
	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Total
Assets				
Cash and cash equivalents	\$ 2,234,783	\$ 1,073,333	\$ 580,474	\$ 3,888,590
Investments	28,895,966	15,914,416	846,458	45,656,840
Accrued interest	142,952	59,319	-	202,271
Total assets	31,273,701	17,047,068	1,426,932	49,747,701
Liabilities				
Accounts payable	613,893	-	-	613,893
Accrued and other liabilities	-	-	18,000	18,000
Total liabilities	613,893	-	18,000	631,893
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 30,659,808</u>	<u>\$ 17,047,068</u>	<u>\$ 1,408,932</u>	<u>\$ 49,115,808</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

For the year ended June 30, 2007, the statement of changes in net assets for the pension plans is as follows:

	Police and Fire Retirement System	Municipal Employees' Retirement System	Retirees' Health Benefit	Total
Additions				
Contributions:				
Employer	\$ 1,900,854	\$ 1,518,817	\$ -	\$ 3,419,671
Plan members	299,696	352,125	-	651,821
Total contributions	2,200,550	1,870,942	-	4,071,492
Investment earnings:				
Net increase in fair value of investments	3,148,523	2,358,069	20,131	5,526,723
Interest and dividends	940,636	367,333	124,734	1,432,703
Investment expenses	(228,627)	(85,929)	(7,210)	(321,766)
Total investment earnings	3,860,532	2,639,473	137,655	6,637,660
Total additions	6,061,082	4,510,415	137,655	10,709,152
Deductions				
Benefit payments	4,395,933	3,162,443	1,408,026	8,966,402
Refunds of contributions	613,377	81,918	-	695,295
Administrative expenses	62,414	72,258	-	134,672
Total deductions	5,071,724	3,316,619	1,408,026	9,796,369
Increase (Decrease) in Plan Net Assets	989,358	1,193,796	(1,270,371)	912,783
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	29,670,450	15,853,272	2,679,303	48,203,025
End of year	<u>\$ 30,659,808</u>	<u>\$ 17,047,068</u>	<u>\$ 1,408,932</u>	<u>\$ 49,115,808</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 936,000	\$ 1,068,000	\$ 1,486,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 928,000	\$ 1,316,000	\$ 1,819,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Amounts are rounded to the nearest thousand.

Note 12 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) of the Internal Revenue Code with International City and County Management Association. The plan was approved by the City Council during the year ended June 30, 2005 and covers all full-time employees (with the exception of elected officials and commission or board members) hired on or after December 1, 2004.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Under the defined contribution plan, the City is required to contribute 7 percent of each participant's annual earnings. In accordance with the requirements, the City expensed \$42,347 during the current year.

Employees are permitted, but not required, to make contributions up the maximum allowed by law. For the year ended June 30, 2007, employee contributions were \$3,900.

Note 13 - Other Postemployment Benefits

The City provides healthcare benefits to all employees covered by the Police and Fire Retirement System and the Municipal Employees' Retirement System upon retirement, in accordance with labor contracts. Currently, 301 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured healthcare plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized in the General Fund, Water Fund, Major and Local Streets Funds, and Community Development Block Grant Fund as the insurance premiums become due; during the year, this totaled \$1,799,362 for health insurance premiums and \$2,771,539 for prescription claims.

The City has established a Retirees Health Care Trust Fund that currently has \$1,408,932 of net assets.

In addition, the City has established a Retirement Health Savings Plan with International City and County Management Association. Under the plan, the City contributes 2 percent of covered payroll for employees hired after December 1, 2004. In accordance with the requirements, the City expensed \$11,081 during the current year. Employees may also contribute to the plan.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2007

Note 14 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - June 30, 2006	\$ (508,356)
Building permit revenue	468,982
Related direct expenditures	<u>(585,162)</u>
Cumulative shortfall - June 30, 2007	<u>\$ (624,536)</u>

Note 15 - Contingent Liability

The City is involved in certain legal matters that have not progressed to a point where any ultimate liability can be determined. Settlement payments on certain cases, but potentially not all cases, would be covered by the insurance pool noted in Note 10. No liability has been reflected in these financial statements.

Note 16 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver sewage treatment system. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$300,000,000, with the City's share estimated to be approximately \$14,000,000. To date, the City has issued bonds of approximately \$12,500,000 to finance construction. The remaining liability to the City is estimated to be approximately \$1,500,000. The bonds are being paid through a court-ordered judgment levy.

Project completion bonds in the amount of \$992,079 were issued in August 2007. Capital improvement bonds in the amount of \$437,575 were approved for issuance by the City Council. The County expects to issue these bonds within the next two fiscal years.

Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,259,013	\$ 2,615,667	\$ 2,615,667	\$ -
Resources (Inflows)				
Property taxes:				
Real and personal property taxes	11,771,487	11,499,102	11,731,210	232,108
Payments in lieu of taxes	19,000	117,233	117,233	-
Total property taxes	11,790,487	11,616,335	11,848,443	232,108
Federal sources				
State sources:				
Revenue-sharing	5,341,326	5,323,148	5,221,036	(102,112)
State grants	90,998	93,321	93,326	5
Liquor license fees	23,000	21,835	21,835	-
Total state sources	5,455,324	5,438,304	5,336,197	(102,107)
Licenses and permits:				
Building, electrical, heating, and plumbing permits	501,605	544,564	585,281	40,717
Recreation programs	614,650	623,477	236,900	(386,577)
Cable television franchise fee	350,000	392,608	392,608	-
Rental and inspection	124,500	152,542	152,542	-
Total licenses and permits	1,590,755	1,713,191	1,367,331	(345,860)
Fines and forfeitures	1,453,750	1,528,173	1,535,064	6,891
Interest and rentals	201,100	258,216	398,494	140,278
Transfer from other funds	425,000	-	-	-
Other	435,378	772,308	797,342	25,034
Total resources (inflows)	23,610,807	23,942,194	23,898,538	(43,656)
Charges to Appropriations (Outflows)				
General government:				
General government	1,632,030	1,476,382	1,740,382	(264,000)
Mayor and City Council	81,636	76,360	76,409	(49)
City manager	421,446	417,232	409,790	7,442
City clerk	247,718	233,186	233,256	(70)
Election commission	60,028	30,843	30,861	(18)
City assessor	134,742	134,930	135,250	(320)
City attorney	127,700	185,103	185,386	(283)
City controller	384,741	292,627	292,767	(140)
Treasury department	318,496	289,191	289,192	(1)
Municipal building	1,253,247	901,564	899,900	1,664
Total general government	4,661,784	4,037,418	4,293,193	(255,775)

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public safety:				
Police	\$ 7,876,010	\$ 7,820,757	\$ 7,712,687	\$ 108,070
Fire	4,420,747	4,657,736	4,625,447	32,289
Civil defense	31,350	31,350	31,349	1
Building department	601,316	582,315	584,249	(1,934)
District Court	1,411,786	1,411,786	1,197,498	214,288
Total public safety	14,341,209	14,503,944	14,151,230	352,714
Public works:				
Department of Public Works	327,408	478,611	479,542	(931)
Planning Commission	7,500	4,976	4,976	-
Street lighting	493,500	467,500	467,500	-
Total public works	828,408	951,087	952,018	(931)
Community and economic development	55,623	52,550	53,439	(889)
Recreation and culture:				
Kennedy Memorial Building			-	-
Historical museum	17,000	17,000	17,000	-
Parks	335,086	338,820	472,584	(133,764)
Recreation and culture	573,218	496,657	497,243	(586)
Library	302,341	411,943	411,943	-
Social services	180,000	158,361	177,856	(19,495)
Community center	595,592	588,082	159,786	428,296
Total recreation and culture	2,003,237	2,010,863	1,736,412	274,451
Transfer to other funds	60,000	-	6,993	(6,993)
Total charges to appropriations (outflows)	21,950,261	21,555,862	21,193,285	362,577
Fund Balance - End of year	\$ 1,660,546	\$ 2,386,332	\$ 2,705,253	\$ 318,921

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Community Development Block Grant Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Federal sources	846,684	846,684	1,315,917	469,233
Other	-	-	4,103	4,103
Total resources (inflows)	846,684	846,684	1,320,020	473,336
Charges to Appropriations (Outflows) -				
Health and welfare	1,684,742	2,164,780	1,320,020	844,760
Fund Balance - End of year	<u><u>\$ (838,058)</u></u>	<u><u>\$ (1,318,096)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,318,096</u></u>

City of Lincoln Park, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the General Fund is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

	General Fund	
	Resources	Charges to
	(Inflows)	Appropriations
		(Outflows)
Amounts per operating statement	\$ 21,282,871	\$ 22,291,768
Beginning fund balance	2,615,667	
Transfers to/from other funds	-	6,993
Capital outlay expenditures budgeted - Net of related debt proceeds	-	(1,105,476)
Amounts per budget statement	<u>\$ 23,898,538</u>	<u>\$ 21,193,285</u>

City of Lincoln Park, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress Municipal Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 21,783,000	\$ 30,193,000	\$ 8,410,000	72	\$ 4,837,000	174
06/30/02	21,612,000	30,844,000	9,232,000	70	4,936,000	187
06/30/03	21,182,000	30,852,000	9,670,000	69	4,926,000	196
06/30/04	21,194,000	36,581,000	15,387,000	58	3,901,000	394
06/30/05*	16,342,000	35,581,000	19,239,000	46	3,230,000	596
06/30/06	15,410,000	37,149,000	21,739,000	42	3,593,000	605

* At conclusion of early retirement window at 12/31/04

Retirement Systems Schedule of Employer Contributions Municipal Employees' Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution
2002	\$ 841,000	\$ 841,000
2003	833,000	833,000
2004	905,000	905,000
2005	936,000	936,000
2006	1,067,548 *	1,067,548
2007	1,485,913 *	1,485,913

* During the year ended June 30, 2006, the City had an experience study performed that changed the amortization period for those individuals that retired under the early retirement window. The study also changed the inflation factor from 4.5 percent to 4.0 percent. The results of the experience study were used to arrive at the June 30, 2006 required contribution; however, the results of those actuarial assumption changes had not yet been incorporated into the actuarial accrued liability calculation in the first table.

The information presented above was determined as part of an actuarial valuation as of June 30, 2006. Additional information on assumptions used in the study is as follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period (perpetual)*	30 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.25
Projected salary increases**	4.0%
**Includes inflation at	4.0%
Additional salary increases attributable to seniority/merit	0% to 3.8%

* 18-year remaining amortization period on a closed basis for those individuals who retired under the early retirement window

City of Lincoln Park, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 46,725,000	\$ 44,235,000	\$ (2,490,000)	106	\$ 5,366,000	-
06/30/02	46,939,000	46,333,000	(606,000)	101	5,611,000	-
06/30/03	46,303,000	47,487,000	1,184,000	98	5,588,000	21
06/30/04	43,611,000	54,615,000	11,004,000	80	4,347,000	253
06/30/05 *	35,339,000	53,553,000	18,214,000	66	4,293,082	424.3
06/30/06	32,519,000	55,488,000	22,969,000	59	4,970,000	462.2

* At conclusion of early retirement window at 12/31/04

Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution
2002	\$ 631,000	631,000
2003	683,000	683,000
2004	834,000	834,000
2005	928,000	928,000
2006	1,315,588 *	1,315,588
2007	1,818,550	1,818,550

* During the year ended June 30, 2006, the City had an experience study performed that changed the amortization period for those individuals that retired under the early retirement window. The study also changed the inflation factor from 4.5 percent to 4.0 percent. The results of the experience study were used to arrive at the June 30, 2006 required contribution; however, the results of those actuarial assumption changes had not yet been incorporated into the actuarial accrued liability calculation in the first table.

The information presented above was determined as part of an actuarial valuation as of June 30, 2006. Additional information on assumptions used in the study is as follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period (perpetual)*	30 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	4.0%
**Includes inflation at	4.0%
Additional salary increases attributable to seniority/merit	0% to 3.8%

* 18-year remaining amortization period on a closed basis for those individuals who retired under the early retirement window

Other Supplemental Information

City of Lincoln Park, Michigan

	Special Revenue Funds					
	Major Streets Funds	Local Streets Funds	Street Improvement Funds	Compensated		Cable Fund
				Absences Funds	Sanitation Fund	
Assets						
Cash and cash equivalents	\$ 1,083,085	\$ 743,367	\$ 390,762	\$ 5,092	\$ -	\$ 298,067
Receivables:						
Taxes	-	-	-	-	170,171	-
Special assessments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Due from other governmental units	289,612	96,945	-	-	-	-
Due from other funds	29,432	26,941	114,453	9,542	105,894	175
Total assets	\$ 1,402,129	\$ 867,253	\$ 505,215	\$ 14,634	\$ 276,065	\$ 298,242
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 8,452	\$ 12,657	\$ 13,518	\$ 9,542	\$ 276,065	\$ 180
Accrued and other liabilities	16,112	2,611	-	-	-	365
Due to other funds	137,169	153,162	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	161,733	168,430	13,518	9,542	276,065	545
Fund Balance - Undesignated	1,240,396	698,823	491,697	5,092	-	297,697
Total liabilities and fund balances	\$ 1,402,129	\$ 867,253	\$ 505,215	\$ 14,634	\$ 276,065	\$ 298,242

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Water Bonds Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 69,737	\$ 2,590,110
-	-	170,171
-	14,082	14,082
2,267	-	2,267
-	-	386,557
30,128	4,724	321,289
<u>\$ 32,395</u>	<u>\$ 88,543</u>	<u>\$ 3,484,476</u>

\$ -	\$ -	\$ 320,414
-	-	19,088
-	-	290,331
-	14,082	14,082
-	14,082	643,915
32,395	74,461	2,840,561
<u>\$ 32,395</u>	<u>\$ 88,543</u>	<u>\$ 3,484,476</u>

City of Lincoln Park, Michigan

	Special Revenue Funds					
	Major	Local	Street	Compensated	Sanitation	
	Streets Fund	Streets Fund	Improvement Fund	Absences Fund	Fund	Cable Fund
Revenue						
Property taxes	\$ -	\$ -	\$ 1,505	\$ -	\$ 1,890,377	\$ -
State sources	1,763,886	590,397	-	-	-	-
Cable franchise fees	-	-	-	-	-	77,156
Interest and rentals	62,711	26,976	24,122	212	7,480	2,524
Other	9,906	773	-	-	-	22
Total revenue	1,836,503	618,146	25,627	212	1,897,857	79,702
Expenditures - Current -						
Public works	956,556	940,627	178,626	-	1,905,002	55,519
Excess of Revenue Over (Under) Expenditures	879,947	(322,481)	(152,999)	212	(7,145)	24,183
Other Financing Sources (Uses)						
Transfers in	-	468,193	-	-	6,993	-
Transfers out	(468,193)	-	-	-	-	-
Total other financing sources (uses)	(468,193)	468,193	-	-	6,993	-
Net Change in Fund Balance	411,754	145,712	(152,999)	212	(152)	24,183
Fund Balances - Beginning of year	828,642	553,111	644,696	4,880	152	273,514
Fund Balances - End of year	\$ 1,240,396	\$ 698,823	\$ 491,697	\$ 5,092	\$ -	\$ 297,697

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

Water Bonds Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,891,882
-	-	2,354,283
-	-	77,156
2,591	2,830	129,446
-	12,507	23,208
2,591	15,337	4,475,975
-	-	4,036,330
2,591	15,337	439,645
-	-	475,186
(435,102)	-	(903,295)
(435,102)	-	(428,109)
(432,511)	15,337	11,536
464,906	59,124	2,829,025
\$ 32,395	\$ 74,461	\$ 2,840,561

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Nonmajor Proprietary Funds - Internal Service Funds June 30, 2007

	Motor Pool Fund	Information Technology Fund	Total
Assets			
Current assets:			
Cash and investments	\$ -	\$ 64,667	\$ 64,667
Due from other funds	530,488	5,300	535,788
Total current assets	530,488	69,967	600,455
Noncurrent assets - Capital assets	1,829,904	34,540	1,864,444
Total assets	2,360,392	104,507	2,464,899
Liabilities			
Current liabilities:			
Accounts payable	219,450	741	220,191
Accrued and other liabilities	4,039	885	4,924
Due to other funds	-	543	543
Current portion of long-term debt	165,614	-	165,614
Total current liabilities	389,103	2,169	391,272
Noncurrent liabilities - Long-term debt - Net of current portion	148,555	-	148,555
Total liabilities	537,658	2,169	539,827
Net Assets			
Invested in capital assets - Net of related debt	1,515,735	34,540	1,550,275
Unrestricted	306,999	67,798	374,797
Total net assets	<u>\$ 1,822,734</u>	<u>\$ 102,338</u>	<u>\$ 1,925,072</u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets - Nonmajor Proprietary Funds Internal Service Funds Year Ended June 30, 2007

	Motor Pool Fund	Information Technology Fund	Total
Operating Revenue - Charges for services	\$ 1,169,733	\$ 212,698	\$ 1,382,431
Operating Expenses			
Operation and maintenance	379,964	66,387	446,351
General and administrative	279,829	98,693	378,522
Depreciation	396,225	6,625	402,850
Total operating expenses	<u>1,056,018</u>	<u>171,705</u>	<u>1,227,723</u>
Operating Income	113,715	40,993	154,708
Nonoperating Revenue (Expense)			
Investment income	1,435	55	1,490
Interest expense	<u>(16,590)</u>	<u>-</u>	<u>(16,590)</u>
Total nonoperating revenue (expense)	<u>(15,155)</u>	<u>55</u>	<u>(15,100)</u>
Change in Net Assets	98,560	41,048	139,608
Net Assets - Beginning of year	<u>1,724,174</u>	<u>61,290</u>	<u>1,785,464</u>
Net Assets - End of year	<u><u>\$ 1,822,734</u></u>	<u><u>\$ 102,338</u></u>	<u><u>\$ 1,925,072</u></u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Cash Flows Nonmajor Proprietary Funds - Internal Service Funds Year Ended June 30, 2007

	Motor Pool Fund	Information Technology Fund	Total
Cash Flows from Operating Activities			
Receipts from other funds	\$ 1,169,733	\$ 212,698	\$ 1,382,431
Payments to suppliers	(196,911)	(110,137)	(307,048)
Payments to employees	(280,965)	(99,150)	(380,115)
Other payments	-	(9,285)	(9,285)
Net cash provided by (used in) operating activities	691,857	(5,874)	685,983
Cash Flows from Capital and Related Financing Activities			
Payments to other funds	-	1,513	1,513
Purchase of capital assets	(259,116)	(9,841)	(268,957)
Principal paid on debt	(180,282)	-	(180,282)
Interest paid on debt	(16,590)	-	(16,590)
Net cash used in capital and related financing activities	(455,988)	(8,328)	(464,316)
Cash Flows from Noncapital Financing Activities - Payments to other funds	(357,583)	-	(357,583)
Cash Flows from Investing Activities - Interest received on investments	1,435	55	1,490
Net Decrease in Cash and Cash Equivalents	(120,279)	(14,147)	(134,426)
Cash and Cash Equivalents - July 1, 2006	120,279	78,814	199,093
Cash and Cash Equivalents - June 30, 2007	<u>\$ -</u>	<u>\$ 64,667</u>	<u>\$ 64,667</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 113,715	\$ 40,993	\$ 154,708
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	396,225	6,625	402,850
Changes in assets and liabilities:			
Accounts payable	183,053	(43,750)	139,303
Accrued and other liabilities	(1,136)	(457)	(1,593)
Due to other funds	-	(9,285)	(9,285)
Net cash provided by (used in) operating activities	<u>\$ 691,857</u>	<u>\$ (5,874)</u>	<u>\$ 685,983</u>

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2007

	Pension and Other Employee Benefits Trust Funds				Agency Funds		
	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Total	Current Tax Collection	Payroll	Total
Assets							
Cash and cash equivalents	\$ 2,234,783	\$ 1,073,333	\$ 580,474	\$ 3,888,590	\$ 10,688	\$ 170,251	\$ 180,939
Investments	28,895,966	15,914,416	846,458	45,656,840	-	-	-
Accrued interest	142,952	59,319	-	202,271	-	-	-
Total assets	31,273,701	17,047,068	1,426,932	49,747,701	<u>\$ 10,688</u>	<u>\$ 170,251</u>	<u>\$ 180,939</u>
Liabilities							
Accounts payable	613,893	-	-	613,893	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	18,000	18,000	10,688	170,251	180,939
Total liabilities	613,893	-	18,000	631,893	<u>\$ 10,688</u>	<u>\$ 170,251</u>	<u>\$ 180,939</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 30,659,808</u>	<u>\$ 17,047,068</u>	<u>\$ 1,408,932</u>	<u>\$ 49,115,808</u>			

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2007

	Police and Fire Retirement System	Municipal Employees' Retirement System	Retirees' Health Benefit	Total
Additions				
Contributions:				
Employer	\$ 1,900,854	\$ 1,518,817	\$ -	\$ 3,419,671
Plan members	299,696	352,125	-	651,821
Total contributions	2,200,550	1,870,942	-	4,071,492
Investment earnings:				
Net increase in fair value of investments	3,148,523	2,358,069	20,131	5,526,723
Interest and dividends	940,636	367,333	124,734	1,432,703
Investment expenses	(228,627)	(85,929)	(7,210)	(321,766)
Total investment earnings	3,860,532	2,639,473	137,655	6,637,660
Total additions	6,061,082	4,510,415	137,655	10,709,152
Deductions				
Benefit payments	4,395,933	3,162,443	1,408,026	8,966,402
Refunds of contributions	613,377	81,918	-	695,295
Administrative expenses	62,414	72,258	-	134,672
Total deductions	5,071,724	3,316,619	1,408,026	9,796,369
Increase (Decrease) in Plan Net Assets	989,358	1,193,796	(1,270,371)	912,783
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	29,670,450	15,853,272	2,679,303	48,203,025
End of year	<u>\$ 30,659,808</u>	<u>\$ 17,047,068</u>	<u>\$ 1,408,932</u>	<u>\$ 49,115,808</u>

City of Lincoln Park, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

City of Lincoln Park, Michigan

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Independent Auditor's Report

To the Mayor and City Council
City of Lincoln Park, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lincoln Park, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2007. The opinion of the governmental activities included within the basic financial statements has been qualified as the City has not recorded the value of land it owns in its government-wide financial statements. Those basic financial statements are the responsibility of the management of City of Lincoln Park, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lincoln Park, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 19, 2007

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Mayor and City Council
City of Lincoln Park, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items 07-01 through 07-07 to be significant deficiencies in internal control over financial reporting.

To the Mayor and City Council
City of Lincoln Park, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiencies described in the schedule of findings and questioned costs as items 07-01 through 07-06 constitute material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lincoln Park, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Lincoln Park, Michigan's response to the significant deficiencies and material weaknesses identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the mayor, city council, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 19, 2007

**Report on Compliance with Requirements Applicable to Each Major Program and
on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Mayor and City Council
City of Lincoln Park, Michigan

Compliance

We have audited the compliance of City of Lincoln Park, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The major federal program of City of Lincoln Park, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of City of Lincoln Park, Michigan's management. Our responsibility is to express an opinion on City of Lincoln Park, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Lincoln Park, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Lincoln Park, Michigan's compliance with those requirements.

In our opinion, City of Lincoln Park, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-08.

To the Mayor and City Council
City of Lincoln Park, Michigan

Internal Control Over Compliance

The management of City of Lincoln Park, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Lincoln Park, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance and its operation that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement for a major program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement for a major program that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 07-08 to be a significant deficiency in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance that is material to a type of compliance requirement for a major program will not be prevented or detected by the entity's internal control. Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over compliance that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiency described in the schedule of findings and questioned costs as item 07-08 constitutes a material weakness.

City of Lincoln Park, Michigan's response to the material weakness and finding relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Mayor and City Council
City of Lincoln Park, Michigan

This report is intended solely for the information and use of the mayor, city council, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

November 19, 2007

City of Lincoln Park, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant	Award	Federal
		Number	Amount	Expenditures
U.S. Department of Housing and Urban Development - Direct Programs - Community Development Block Grant:				
Program Year 1998 - B-98-MC260007	14.218		\$ 931,000	\$ 2,092
Program Year 2004 - B-04-MC260007	14.218		989,000	75,777
Program Year 2005 - B-05-MC260007	14.218		939,194	635,024
Program Year 2006 - B-06-MC260007	14.218		846,684	607,127
Total Federal Awards			\$ 3,705,878	\$ 1,320,020

City of Lincoln Park, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Lincoln Park, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The City had the following loan balances outstanding at June 30, 2007. These loan balances are not included in the federal expenditures presented in the schedule of expenditures of federal awards.

Cluster/Program Title	CFDA Number	Amount Outstanding
Community Development Block Grant Rehabilitation Loans	14.218	\$2,460,680

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant:		
The Senior Alliance	14.218	\$ 6,402
County Homeless Shelter	14.219	3,000
Senior Transportation	14.220	5,000
Citizens Patrol Watch	14.221	10,000

Note 4 - Grant Section Auditor's Report

Management has reconciled the expenditures reported in the schedule of expenditures of federal awards to those amounts reported in the annual or final close-out reports.

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program:

- Material weakness identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.218	U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
07-01	<p>Accounting for New Internal Service Funds</p> <p>Finding Type - Material weakness</p> <p>Criteria - Asset and liability accounts record cumulative activity from year to year. Revenue and expense accounts track current year activity only and should close out to fund balance at the end of each fiscal year.</p> <p>Condition - Some expense accounts in the Internal Service Funds were not properly closed to fund balance at the end of the prior year. In addition, one long-term liability account balance did not roll over to the current year.</p> <p>Context - These Internal Service Funds (Motor Pool Fund and Information Technology Fund) were created in the prior year. Some of the new accounts were not accurately coded as expense accounts or liability accounts in the accounting system.</p> <p>Cause and Effect - The City did not have a control in place to ensure new general ledger accounts were properly coded in the accounting system.</p> <p>Recommendation - Controls related to proper account coding should be implemented to ensure the accuracy of recorded fund balance at year end.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The situation has been corrected and the affected accounts have now been accurately coded in the accounting system. The City will put a control in place to ensure new general ledger accounts are properly classified.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-02	<p>Bank Reconciliations</p> <p>Finding Type - Material weakness</p> <p>Criteria - Bank reconciliations should be prepared timely and accurately to ensure potential errors and/or irregularities are identified promptly.</p> <p>Condition - The City's bank reconciliations did not agree to the general ledger for some funds at year end. In addition, reconciliations were not consistently reviewed.</p> <p>Context - Staffing changes in various departments and a change in the structure of bank accounts contributed to the lack of bank reconciliation preparation.</p> <p>Cause and Effect - In order to maintain adequate internal control and identify potential errors, timely bank reconciliations should be prepared.</p> <p>Recommendation - The City should prepare timely bank reconciliations. Those reconciliations should be reviewed for accuracy and signed and dated as evidence of timely preparation and review.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-03	<p>Accounting for Receivables and Related Deferred Revenue</p> <p>Finding Type - Material weakness</p> <p>Criteria - Accounts receivable that are measurable and available at year end should be recorded as current year revenue in accordance with generally accepted accounting principles.</p> <p>Condition - Journal entries were necessary to reverse prior year accruals for state-shared revenue, Act 51 monies, property taxes, and unbilled water and sewer receivables. Journal entries were also necessary to record current year delinquent property tax receivables, CDBG receivables, and the related adjustments to the deferred revenue accounts.</p> <p>Context - These journal entries are only made once a year to record year-end accruals.</p> <p>Cause and Effect - The City recorded journal entries for all current year receivables except for delinquent property tax receivables. However the prior year entries were not reversed. The City did not correctly record the CDBG receivables and deferred revenue balances at year end.</p> <p>Recommendation - The City should develop controls to ensure that all appropriate journal entries are made prior to closing its books.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-04	<p>Retirement System Accounting</p> <p>Finding Type - Material weakness</p> <p>Criteria - Retirement system accounting reconciliations should be prepared in a timely and accurate manner to help identify possible errors and irregularities.</p> <p>Condition - The City did not reconcile monthly pension activity per the bank statements to the general ledger on a regular basis throughout the year. In addition, the City does not track reserves for the pension systems.</p> <p>Context - Staffing changes made it difficult to accurately prepare pension statement reconciliations throughout the year. In addition, the City has historically relied on the auditors to calculate the pension reserves at year end.</p> <p>Cause and Effect - The City did not have a control in place to regularly perform reconciliations and to review activity of the pension system.</p> <p>Recommendation - The City should prepare accurate and timely reconciliations of the pension system. The reconciliations should be reviewed by someone who is knowledgeable about the pension systems.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-05	<p>Reimbursement from District Court</p> <p>Finding Type - Material weakness</p> <p>Criteria - In order to maximize cash flow, the City should ensure that any expenses paid on behalf of another entity are billed and collected in a reasonable amount of time.</p> <p>Condition - The City did not bill the 25th District Court for the fringe benefits it paid on the Court's behalf throughout the year.</p> <p>Context - The City does have a system in place to track the amount that was owed to them by the Court. However, it did not have a system in place to bill the Court.</p> <p>Cause and Effect - The City was owed approximately \$375,000 at year end from the Court. Collection of the amounts owed throughout the year would help improve cash flow in the General Fund.</p> <p>Recommendation - The City should implement controls to ensure a bill is prepared monthly for fringe benefits expenses owed by the Court.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-06	<p>Forfeiture Activity</p> <p>Finding Type - Material weakness</p> <p>Criteria - Revenues and expenditures should be recorded separately to account for yearly activity.</p> <p>Context - The City did not record forfeiture revenue and expenditure activity throughout the year, but rather adjusted a liability to reflect cash inflows and outflows for the year.</p> <p>Cause and Effect - A journal entry was necessary to recognize revenue and expenditure activity for forfeitures.</p> <p>Recommendation - The City should set up revenue and expenditure accounts to track forfeiture activity throughout the year. The City should consider establishing a new special revenue fund to account for this activity.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-07	<p>Water and Sewer Billing</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - Accounts receivable that are measurable and available at year end should be recorded as current year revenue.</p> <p>Condition - The City did not record delinquent special assessment receivables related to its water and sewer billings.</p> <p>Context - Journal entries to record this activity are only recorded at year end.</p> <p>Cause and Effect - The current year activity was not recorded. As a result, revenue was understated.</p> <p>Recommendation - The City should review the annual property tax settlement received from Wayne County to ensure that appropriate accounts receivable and revenue are recorded.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section III - Federal Program Audit Findings

Reference Number	Findings
07-08	<p>U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant - 14.218</p> <p>Finding Type - Noncompliance, material weakness in internal control over compliance</p> <p>Criteria - The CDBG financial summary which was submitted to the U.S. Department of Housing and Urban Development Office of Community Planning and Development should agree to the financial records of the City.</p> <p>Condition - Current year program income and total expenditures did not reconcile to the City's general ledger.</p> <p>Context - Program income from the previous year was reported as current year program income. In addition, there were minor differences in the amount of expenditures reported.</p> <p>Cause and Effect - In response to a prior year finding, the City used program income first. However, it did not report it correctly on the year-end financial summary.</p> <p>Recommendation - The City should report current year program income revenue and expenditures that reconcile to the City's general ledger on the CDBG financial summary.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Lincoln Park, Michigan

Summary Schedule of Prior Audit Findings Year Ended June 30, 2007

Finding	CFDA Number	Questioned Costs	Comments
The City did not record the receipt of program income on a timely basis to the grantor.	14.218	None	The City corrected the situation in the current year and reported program income timely.



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To the Honorable Mayor
and Members of the City Council
City of Lincoln Park
1355 Southfield Road
Lincoln Park, Michigan 48146

Dear Mayor and City Council Members:

We recently completed the audit of the basic financial statements of the City of Lincoln Park, Michigan (the "City") for the year ended June 30, 2007. In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

Financial Challenges

The City's General Fund fund balance increased during the year by approximately \$90,000. Of this increase, approximately \$60,000 of the increase was due to a change in the accounting for drug forfeiture revenues. Those monies are restricted in the General Fund and can only be used for purposes specifically identified by the federal and state governments. The City's amended budget had projected a \$230,000 use of fund balance. The City was able to avoid the use of fund balance by decreasing payroll expenses by approximately \$1,500,000 over the past three years and also by paying for approximately \$1,400,000 of retiree healthcare costs out of the Retiree's Health Benefit Fund. In the past, the City had paid the current cost for retirees from the General Fund and used the Retiree's Health Benefit Fund as a vehicle to accumulate funds for pre-funding of retiree health care. No funds have been spent out of this fund in the past.

The healthcare costs, along with other factors, will continue to challenge the level of fund balance maintained by the City. The City's unreserved General Fund fund balance is currently at 10 percent of one year's worth of expenditures. This is at the bottom range of the 10 percent to 20 percent range that we recommend. The City has taken steps to control expenditures. The largest initiative was the early retirement incentive program. Prior to the early retirement incentive, payroll for the City had been increasing. In fact, the level of total payroll had increased by almost \$700,000 in just three years. After the retirement window, payroll has decreased by approximately \$1,000,000 annually.

We encourage the City to continue to look for ways to further reduce expenditures, such as through service sharing. We are also in the process of updating the five-year financial projection that was done this past spring in order to forecast the level of fund balance.

Following is a discussion related to some of the challenges the City will continue to face.

Healthcare Costs

The City's healthcare costs are projected to increase as a result of the early retirement incentive program and the fact that healthcare costs continue to rise at double digit rates. The City's total cost for health care, including prescription costs, during the year ended June 30, 2007 was approximately \$4,600,000. This includes costs for both current employees and retirees.

As mentioned last year, the Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The statement will also require the City to have an actuarial valuation to define the liability and the liability will need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability, would also be disclosed. Lastly, the actuary will provide the City with an annual contribution amount that the actuary deems necessary to fund the liability over a 30-year period. The City may choose not to, or may not be able to, make this payment. If that is the case, the unfunded status will be disclosed in the notes to the financial statements. The new pronouncement is effective for the year beginning July 1, 2008.

Currently, the City has approximately \$1,400,000 set aside in the Retiree's Health Benefit Trust Fund. The City used \$1.3 million of the fund balance in this fund during the year to pay current healthcare insurance premiums. As a result, the fund balance decreased from \$2.7 million to \$1.4 million. At this rate, the fund will be completely depleted in one year. Once this fund is depleted, the City will have to make the healthcare premium payments from the other funds, mainly the General Fund. We understand that the City has taken steps to control costs by implementing a new retirement health savings plan for employees hired after December 1, 2004.

State-shared Revenue

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of to-be-determined cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

We will continue to update the City as developments occur.

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of “uncapped” values or the “pop up” amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation was enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not yet been voted on in the House. The bills are not tie barred.

Personal Property Tax

Over the last seven years, the State’s personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government).

The new Michigan business tax also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the City, personal property tax represents 5 percent of its tax base.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the six SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments, such as the City of Lincoln Park, Michigan, that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, and property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

Internal Control and Other Matters

Our observations and comments regarding the City's internal controls, including any significant deficiencies and/or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. This report is included in the federal awards supplemental information (the single audit report), and we recommend that the matters we have noted there receive your careful consideration. These matters are summarized below:

- Journal entries were necessary to properly state several Internal Service Fund account balances, to reverse prior year accruals for property taxes, revenue sharing, Act 51 revenues, and unbilled water and sewer receivables, CDBG receivables and related deferred revenue, to record current year delinquent special assessments and delinquent water bills, and to record year-end pension activity. In addition, the City did not track year-end pension reserves.
- Year-end bank reconciliations did not tie to the general ledger at the time of the audit. In addition, bank reconciliations were not reviewed consistently throughout the year.
- The water and sewer outstanding balance report is not being reconciled to the general ledger.
- The City did not bill the District Court throughout the year for health insurance and pension contributions paid on the Court's behalf.
- The City recorded net activity for forfeitures as a liability on the balance sheet. A journal entry was necessary to record revenue and expenditure activity.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City's staff during the audit. We appreciate the opportunity to serve as your auditors and present these recommendations. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Pamela L. Hill